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## Multilateral trade negotiations and the changing prospects for Third World development: Assessing from a southern perspective

*Journal of Economic Issues*; Lincoln; Jun 1998; P Sai-wing Ho;

**Volume:** 32  
**Issue:** 2  
**Start Page:** 375-383  
**ISSN:** 00213624  
**Subject Terms:** Studies  
Trade negotiation  
LDCs  
Economic development  
Trade agreements  
Trade policy  
Economic development

**Classification Codes:** **1300:** *International trade & foreign investment*  
**1130:** *Economic theory*  
**9180:** *International*  
**9130:** *Experimental/theoretical treatment*

**Geographic Names:** Southern Hemisphere

### Abstract:

*Given the ongoing pace of globalization and the persistence of underdevelopment in many parts of the Third World, it is timely to review how the trade and investment environment has evolved and, based on that review, to consider the prospects for development in the foreseeable future. There is a need to conduct reviews and assessments from non-mainstream perspectives as well. A paper conducts such an exercise from a Southern perspective. A summary is given of the key issues that have arisen from the different rounds of MTNs and that strongly impinge on Southern development. A Southern perspective on trade, investment, and development is then surveyed.*

### Full Text:

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It has been three years since the establishment of the World Trade Organization (WTO) and the implementation, subject to differentiated phase-in periods for different areas, of the agreements reached in the Uruguay Round of multilateral trade negotiation (MTN). The latter is, of course, the eighth in a series of MTN that were held under the auspices of the General Agreement on Tariffs and Trade (GATT) in the last half century, during which the international trade and investment environment for Third World development (especially the trade aspect) has been periodically recast and altered. Given the ongoing pace of globalization and the persistence of underdevelopment in many parts of the Third World, it is timely to review how the trade and investment environment has evolved and, based on that review, to consider the prospects for development in the foreseeable future.

The conclusions drawn from such an exercise depend on initial assumptions as to how trade and foreign investment are related to the process of development. "The [mainstream] theory of trade and welfare provides the underpinnings for the general principles that underlie GATT . . ." [Bhagwati 1987, 551-2]. Hence, MTNs held under the auspices of GATT have been judged largely according to how closely the results of the negotiations conform to the prescriptions of that theory [see Baldwin 1995, 153; OECD 1993, chaps. 2-3]. To strive for better balanced judgments, there is obviously a need to conduct reviews

and assessments from non-mainstream perspectives as well.

This paper conducts such an exercise from a "Southern" perspective. The latter is largely constructed from the North-South literature.<sup>1</sup> Despite some deficiencies in this literature, as a whole it constitutes a fairly concerted and powerful challenge to mainstream trade and development analyses. This paper begins with a brief summary of the key issues (and related agreements) that have arisen from the different rounds of MTNs and that strongly impinge on Southern development. A Southern perspective on trade, investment, and development is then surveyed. Given that perspective, appraisals of the obstacles to, and prospects for, Southern development in the light of the changing environment are carried out. Some concluding comments are then offered.

### MTNs and the Changing Trade and Investment Environment

At the risk of oversimplification, the several rounds of MTN can be viewed as a story of the changing degree of freedom and autonomy enjoyed by Southern countries in their pursuit of national development-related policies. These changes can be divided into "traditional" and "new" areas. In the "traditional" areas of negotiation, there has been an intense fight for Special and Differential (S&D) treatment by the South. This reached its climax in the Tokyo Round, the "high-water mark of S&D treatment" [Hudec 1992, 73]. Bear in mind that the prime focus of GATT-sponsored MTNs had been tariff reduction in accordance with the dual-principle of reciprocity and most-favored nation (MFN) treatment. S&D treatments thus relate to the relative autonomy to employ both tariff and quantitative measures (Article XVIII), the right of nonreciprocity in tariff bargaining (Part 4, Trade and Development, Article XXXVI), the privilege to export under the generalized system of preferences (GSP) ("Enabling Clause," Tokyo Round), and the autonomy to deploy subsidies (exemption from the general obligation of Article IX; see also the Code on Subsidies and Countervailing Duties, Tokyo Round).

The stage for the significant erosion of these treatments was set during the Tokyo Round, thanks to the inclusion of a "graduation" text in the Tokyo Declaration [see Hudec 1987, 86], which "proved to be the opening shot in what became a long and tedious battle" [Winham 1986, 94]. Within the traditional realm of negotiation, the powerful onslaught by the Northern countries on S&D treatment during the Uruguay Round can be mainly witnessed in two areas of the agreements. First, the range of industrial products imported by the developing countries that will be bound by tariffs will expand from 22 percent of tariff lines to 72 percent [Whalley and Hamilton 1996, 42]. This creates more negotiable tariff instruments for future MTNs and is thus a prelude to the restoration of the reciprocity principle. Second, there will be tighter restrictions on the deployment of certain subsidies as some will be "prohibited" and others are deemed "actionable," leaving just a few that are "non-actionable."<sup>2</sup> In restricting the use of subsidies, differentiated grace periods are granted between developing and least-developed countries.<sup>3</sup> Here, one can detect a clear legitimization of the concept of graduation.

According to the agreements in the areas of negotiation that were "new" to the Uruguay Round (viz. trade in services, investment measures, and the protection of intellectual property rights [IPRs]), the Southern countries' autonomy to pursue development-related policies within those areas will be curtailed in many ways and will almost certainly be further restricted in ongoing and future negotiations.<sup>4</sup> Under the agreement on TRIPs (trade-related aspects of intellectual property rights), all WTO members are required to provide copyright, trademark, and patent protection for specified numbers of years on the goods and services covered under those agreements to which most Northern countries adhere (viz. the Paris Convention, the Berne Convention, the Rome Convention, and the Treaty on Intellectual Property in Respect of Integrated Circuits). To enforce the agreement, members

are expected to establish appropriate national judicial procedures.

The agreement on TRIMs (trade-related investment measures) binds members not to apply those measures that are inconsistent with either GATT's Article III (on national treatment) or Article XI (on quantitative restrictions), including, for instance, local-content and trade-balancing requirements (e.g., limiting a firm's imported inputs to a certain percentage of its export earnings). It should be added that for both the agreements on TRIPs and TRIMs, there is also a grace period for compliance that is tiered according to a country's stage of development.

The General Agreement on Trade in Services (GATS) commits signatories to a set of general principles that includes MFN treatment (with significant sectoral exceptions in, for instance, transportation services) and transparency of trade measures affecting services. Although relatively few commitments over market access and national treatment were made, and those that were would seem to be of limited consequence, the stage is definitely set for more liberalization in future negotiations [Baldwin 1995, 155-6; Whalley and Hamilton 1996, 52-5; WTO 1997 February].

#### Trade, Investment, and Development: A Southern Perspective

The observation that countries engaged in commerce with each other have invariably progressed at uneven rates has to be at least as old as classical economic analysis. Nevertheless, save perhaps for John Stuart Mill's rather static investigation of how different terms of trade could imply different divisions of the gains from trade between the trading nations [1987, bk. 3, chap. 18], uneven growth and development have largely been ignored by the mainstream trade analysts. In fact, as far as the unevenness that has been generally witnessed between the countries of the North and those of the South is concerned, it was not until the 1950s, thanks largely to the works of Prebisch [1950, 1959], Singer [1950], Baran [1957], and Myrdal [1957], that it started to receive more serious attention.

More modern, and formal, North-South models have built upon the prominent themes in the literature from the 1950s, viz. the general plight of the primary exporting countries (e.g., the allegedly declining terms of trade), the dominance exerted by Northern capital (including the rise of monopoly capital in the North), and the technological backwardness of the South. Perhaps no less important is that some of these models have also departed in new directions. While a detailed survey is beyond the scope of this paper,<sup>5</sup> it suffices to say that these models generally feature some sort of regional difference between the North and the South—structural, institutional, technological, endowment, behavioral (relating to consumption and saving), etc.—and then proceed to derive through unrestricted trade and/or foreign investment some unfavorable results for the latter.<sup>6</sup> These results pertain to, among other things, the South's terms of trade, rate of accumulation, employment level, wage rate, consumption or income level, deindustrialization, or level of debt-dependence.

Is there an underlying theme that is common to these "diffuse" messages? If unrestricted trade with, or unrestricted investment from, the North could adversely affect the development of the South, the obvious implication is that the South should strive for some controls over these activities.

#### MTNs and Prospects for Development: A Southern Perspective

If, based on the **North-South** literature summarized in the last section, unrestricted trade with the North would hurt the South in certain ways and retard its development, then the South's autonomy to employ different "traditional" policy instruments to direct and control trade, which was in many ways conferred by the S&D status, is indispensable. As such, the outcome of the Uruguay Round that falls

within the "traditional" area-viz. expansions in tariff bindings, restrictions on the deployment of certain subsidies, and graduation--does not bode well for the South.<sup>7</sup> As Diana Tussie [1993, 87] notes, "the available range of trade and industrial policy options of **developing countries** is becoming more limited. **Developing countries** will have to tie their hands progressively if they wish to participate more actively in the international division of labor."

The preservation and extension of the technology gap between the North and the South is, according to the **North-South** literature, certainly a key factor in maintaining and even widening the gap in the average well-being between the two regions. The implication is that the transfer of technologies--including those that could be employed to meet basic needs (such as food, health, housing, and education), to protect the environment, to improve land and water use--is crucial in narrowing this gap [South Commission 1990, 2534]. It is for these considerations that a lot of the patent laws that the Southern countries inherited from the colonial powers had been revised since political independence. These revisions were aimed at promoting industrialization, securing the transfer of technology from the North, or more generally providing a better balance between the rights of the patentees and the public interests [Raghavan 1990, 123]. Demands were also made to reform the international conventions on patents, although without any success. Because of the inequity (real or perceived) in the existing treaties, a lot of the **developing countries** simply refused to become signatories to them. However, the agreement on TRIPs (with tremendous bilateral pressure exerted by the United States outside of the Uruguay Round negotiations) would now tighten and expand the international system for enforcing respect for IPRs by, among other means, obliging the Southern countries to restructure their national laws to accommodate the needs and interests of the **North** [South Commission 1990, 254; Whalley and Hamilton 1996, 51-2]. The acronym "TRIPs" gains a new meaning in the dire prediction that "all the proposals of Industrial countries in this group are aimed at tripping the Third World efforts at industrialisation and development and preventing them from emerging as competitors" [Raghavan 1990, 63, n. 21].

With respect to TRIMs, if, as the North-South literature suggests, unrestricted direct investment by transnational corporations (TNCs) from the North could harm the South, then the freedom of the latter to block unacceptable activities or projects and to modify the terms of the TNC's operations will be crucial in enabling it to realize its development objectives. To these ends, the countries from (particularly, but not exclusively) the South have, since their independence, instituted various kinds of investment controls. Not surprisingly, the deployment of such measures has increasingly irritated the North [Choate and Linger 1988, 25-6; Wallace 1988, 152]. Proposals were made by the United States in the mid-1980s to include TRIMs on the agenda in the next round of MTN. What transpired during the Uruguay Round was that the governments and the TNCs of the Northern countries insisted on tying the hands of the governments of the Southern countries while leaving the policies of the TNCs basically untouched. These countries, in particular the United States, were essentially launching an effort "to dismantle various screening and control measures painstakingly constructed over the postwar period . . . [that were intended] to rein in burgeoning U.S.-based and other transnationals" [Diaz-Alejandro and Helleiner 1987, 515]. The agreement on TRIMs is only a beginning. One can be sure that restrictions on more TRIMs will be put in place in ongoing and future negotiations.<sup>8</sup> Heading into the twenty-first century, these could pose formidable obstacles to national development in the countries of the South.

Although issues related to trade in services have seldomly been analyzed in the North-South literature (and in the mainstream literature as well, though the situation is starting to change), to the extent that such trade is often closely connected with FDI, the North's demand for liberalizing trade in services was received with a fear not unrelated to that expressed about the negotiation on TRIMs [Diaz-Alejandro and Helleiner 1987, 516]. That relationship with FDI aside, countries in the South and some in the

North feel strongly that certain service sectors constitute vital parts of their countries' infrastructures, or that they should be protected for national security reasons [Diaz-Alejandro and Helleiner 1987, 515; Peng 1990, 14]. This being a totally new area of trade to be governed by multilateral agreement, countries in the South also argued during the Uruguay Round that more should be found out and learned about such trade. Only then could more accurate predictions about the implications of various proposals, and better informed decisions on them, be made [Abreu 1990, 37; Raghavan 1990, 105, 108-9]. Despite these concerns and related resistance,<sup>9</sup> an agreement was pushed through. Even though that agreement is of rather limited consequence, the stage is definitely set for more substantive liberalization in future MTNs [Whalley and Hamilton 1996, 52-3].

Finally, an assessment of MTNs from the Southern perspective could also remind the reader that various rounds of MTN have left out, or in any case have not adequately addressed, certain trade and development issues of utmost concern to the South. Take, for instance, primary commodity trade and debt and trade linkages. Commodities' terms of trade and stability of export earnings have not been negotiable issues within the GATT structures. As for those countries with debt problems, there is no institutional mechanism to link debt service assurances to improved market access, which could generate the required export earnings to service debts. In addition, these countries have increasingly encountered pressures (which have been exerted outside of GATT) for unilateral liberalization as part of the conditionality associated with the International Monetary Fund and World Bank support packages. However, there is no guarantee that such unilateral liberalization could earn credit toward fulfilling reciprocal liberalization in future MTNs [Whalley 1989, 4, 9-10].<sup>10</sup>

### Some Concluding Comments

Should the countries of the South, in their pursuit of national development, be granted more freedom and autonomy than Northern countries in restricting or directing trade and foreign investment? According to the North-South literature, the answer is affirmative. Viewed from that perspective, the latest round of MTN has tended to recast the international trade and investment environment for the next century in a way that should be cause for concern. <sup>11</sup>

Unfortunately, the North-South models constructed to date are geared toward portraying the conditions under which unfavorable results against the South obtain from unrestricted trade or foreign investment. They appear to be less capable of generating specific conclusions as to what policy instruments should be employed to direct trade and investment should the freedom to do so be won. In retrospect, it is regrettable that the lack of policy guidance in the period prior to the Uruguay Round means lost opportunities to effectively exploit that state of relative autonomy. However, what is more pressing now is for the South to decide on sensible ways for individual countries to make use of existing tariffs (bound or otherwise) and those subsidies that have not been restricted or banned, to continue to promote national development. They should act fast before further restrictions are negotiated in the next round of MTN.

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Notes

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As Adams [1987] notes, "Despite the richness of their tradition, American institutional economists have devoted very little attention to the international economy." He then goes on to observe that "lacking a coherent explanation of international economic transactions that is consistent with their analysis of the structure and change of domestic economic relations, institutionalists have commonly looked outside the orbit of institutionalist ideas when trying to understand and explain external economic relations" [Adams 1987, 1841]. These "outside" contributions include the ideas of dependency theorists, neo-Marxists, and product cycle theorists, all of which have strong overlap with the North-South literature that this paper is referring to. See also Glade [1987, 1893-7] for reference to a similar set of "outside" contributions. Subsidies that are contingent on export performance and those that are contingent on the use of domestic over imported goods will be "prohibited." Those that cause injury to the domestic industry of another contracting party, nullify or impair benefits accruing to other contracting parties under GATT, or cause serious



prejudice to the interests of another contracting party, are now "actionable" in the sense that they can be subject to the consultation and dispute settlement procedures of GATT, as well as being subject to countervailing duty actions [Baldwin 1995, 165]. The least-developed countries will, for now, be exempted from having to prohibit subsidies that are contingent on export performance. Limited by its scope, the issue of trade and social standards is not treated in this paper. For two partly overlapping reference lists of these models, see Dutt [1990] and Ho [1997]. Mainstream trade models are also founded upon some sort of differences-technology, endowment, or taste-between trading countries. However, the general framework in which those differences are rooted is, in most cases, distinct from those employed to construct the North-South models. It is this which gives rise to the very different results obtained in the two sets of literature [see Dun 1990, 156-7; Ho 1996, 414-5]. Let it be clarified that it is not the author's position to oppose the idea of graduation per se. However, of the 130 or so members of the WTO, only 29 have least-developed status. Then there are 29 OECD (Organisation for Economic Co-operation and Development) countries. That means 70 or so Third World WTO-member countries (which roughly account for 85 percent of the population of all of the WTO-member countries that have either least-developed or developing status) will be rapidly graduated. Has the process of Third World development really been that successful? See, for instance, the EC-sponsored and U.S.-backed "multilateral investment agreement" dissected by Peng [1996]. Instead of dealing with its existing derogation from GATT (e.g., the Multifibre Arrangement) separately from, and prior to, the negotiation on trade in services, the North offered to trade concessions on its imports of goods (by essentially reconforming to GATT rules)

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in exchange for the South's concessions on its imports of services [see Bhagwati 1987, 551; Abreu 1990]. 10. Some, especially those assessing the Uruguay Round from the mainstream perspective, would counter the pessimistic appraisal in this paper by trumpeting the improved market access for textiles and certain agricultural products, as well as possibly better means to secure such access (e.g., through improved dispute settlement procedures). These are indeed important for Third World development. Nevertheless, whether the wider access will ultimately be phased in (especially with respect to textile trade, the liberalization of which is backloaded) and how well the rejuvenated means to secure access will function are developments that remain to be seen [Baughman et al. 1997]. Incidentally, while the Northern countries allow themselves a 10-year period to phase out the Multifibre Arrangement, in some areas they grant less time to Southern countries before those countries have to graduate. 11. This, of course, contrasts sharply with mainstream assessments, which generally applaud the erosion of S&D treatments [Baldwin 1995; OECD 1993]. 12. It also left unfilled a vacuum into which mainstream trade theorists have stepped and reoccupied the center stage of the trade policy debate.

### [Reference]

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The author is Associate Professor of Economics, University of Denver. This paper was presented at the annual meeting of the Association for Evolutionary Economics, Chicago, Illinois, January 3-5, 1998. Parts of it were drafted when the author composed another paper, with a slightly different title, that was presented at the Southern Economic Association Conference in Washington, D.C., November 23-25, 1996. The author wishes to thank Anne Mayhew and Roberta Niederjohn for their helpful editorial suggestions.

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